



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | May 22, 2026

THE WEEK'S ECONOMY AT A GLANCE

Fair skies, rising pressure

Incoming data this week pointed to an increasingly complicated macro backdrop, as growth remains intact but more uneven while inflation pressures reassert themselves. Business surveys show activity holding in expansion territory, but with momentum softening beneath the surface and cost pressures rising sharply – particularly in energy- and supply-sensitive sectors. At the same time, consumer inflation expectations have moved higher again, suggesting that recent price shocks may be starting to influence broader sentiment and complicate the path back to 2%. Against that backdrop, the April Federal Open Market Committee (FOMC) minutes highlight a Federal Reserve that is firmly on hold but increasingly attuned to two-sided risks, with a higher bar for easing and a renewed focus on inflation persistence. Taken together, the data reinforce an environment where growth continues, but at a seemingly fragile pace – leaving both policymakers and businesses navigating a narrower path between cooling demand and still-elevated inflation pressures.

What this means for business: *For businesses, this points to a still-expanding – albeit uneven and fragile – growth backdrop, where rising input costs and softer demand are likely to keep pressure on margins and reinforce a more cautious approach to hiring and investment.*

Quote of the week

Both the FOMC minutes and recent comments from Fed members highlight a hawkish stance. Together with signs from recent PPI readings that more inflation is coming down the pipeline, we now expect the Fed to stay on hold this year, with increased chances the Fed also remains on the sidelines next year.

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ECONOMIC DATA OF THE WEEK

3.9%

Long-run inflation expectations in the University of Michigan survey rose to 3.9% in May, moving back toward the upper end of last year's tariff-driven range after moderating earlier this year. The increase suggests that the energy-driven inflation impulse is starting to influence broader survey-based expectations, particularly as elevated costs persist. That shift stands in contrast to market-based measures the Federal Reserve views as better anchored, and reinforces a key risk highlighted in this week's FOMC minutes – that inflation pressures could become more embedded over time.

Consistent with that shift, consumer sentiment weakened notably in the latter part of the month, underscoring the extent to which inflation – not just growth – is shaping household perceptions. For policymakers, the nuance is important. Even as growth moderates, the behavior of expectations may ultimately prove decisive in shaping the path of rates.

ECONOMIC REPORT OF THE WEEK

Warsh takes the gavel

Kevin Warsh was sworn in as Federal Reserve Chair on Friday, marking a leadership transition that comes at a particularly delicate moment for monetary policy. While Warsh was historically viewed as more hawkish during his earlier tenure, his recent commentary suggests a greater openness to easing – particularly if inflation pressures are judged to be narrow or supply-driven rather than broad-based. In that context, he has indicated a preference for alternative measures of inflation – such as trimmed-mean gauges – that smooth out extreme price movements and can provide a clearer read on underlying trends.

At the same time, early attention will center on his approach to Fed communication and whether the Committee shifts toward less explicit forward guidance, especially given the heightened internal disagreement evident in the latest FOMC minutes (see below).

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Markets will also be watching how Warsh balances longer-term goals, such as a smaller balance sheet, with near-term financial conditions that have already tightened meaningfully – including the 30-year Treasury yield approaching 5.20% this past week, its highest level since 2007. Taken together, the early phase of the Warsh era is likely to be defined less by immediate policy changes and more by how he reframes the Fed's reaction function in a still uncertain inflation environment.

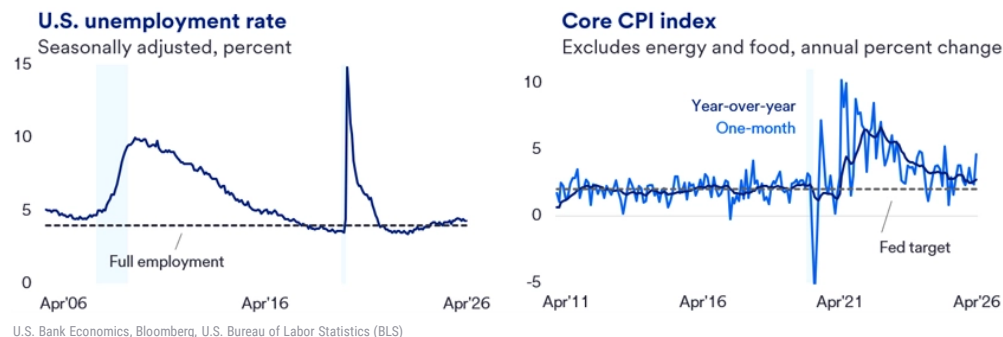
ECONOMIC TRENDS: MONETARY POLICY

FOMC minutes: Inflation risks pull policy back to center

The April FOMC minutes reinforce a Federal Reserve that is comfortable holding policy steady, but increasingly focused on the risk that inflation proves more persistent than previously expected. Policymakers continued to describe growth as solid and the labor market as broadly stable, yet the tone around inflation turned more cautious – reflecting renewed pressure from energy prices, geopolitical disruptions and tariffs. The minutes underscore that the path back to 2% may be slower and more uneven, with most participants highlighting increased upside inflation risk.

Against that backdrop, the bar for easing has risen, and the Committee's reaction function has become more clearly two-sided. While some participants noted that rate cuts could be appropriate if disinflation resumes or labor market conditions soften, a majority indicated that further firming could be warranted if inflation remains persistently above target. Many also preferred removing language interpreted as an easing bias, signaling a clear desire to preserve policy flexibility in both directions.

The minutes also provide nuance on what is driving inflation concerns. Alongside energy and tariffs, participants pointed to AI-related investment as a source of higher input costs, while also noting that price increases in certain technology categories may not be reliable indicators of broader inflation trends. This distinction suggests a Fed that is attentive not just to the level of inflation, but to its underlying composition – a dynamic that supports a more patient, data-dependent stance.



Overall, this is a timely bridge into the Warsh transition. The April minutes depict a Fed that is both more internally divided and less inclined to offer directional guidance. For markets, the key takeaway is less about an imminent shift in rates and more about a Fed that has moved back toward center – comfortable holding steady while keeping tightening on the table if inflation fails to ease. How that framework is communicated – and how inflation develops from here – will be central to the early phase of the new chair's tenure.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Holding up, but under pressure

May's flash S&P Global PMIs (Purchasing Managers' Indexes) suggest that U.S. business activity continues to expand, but at a modest and uneven pace, with the composite output index holding steady at 51.7 – a level consistent with subdued growth entering the middle of the second quarter. While the headline points to ongoing resilience in private sector activity, the broader signal is one of cooling momentum, with survey evidence indicating that growth remains below earlier-year trends and increasingly sensitive to rising costs and uncertainty.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Holding up, but under pressure *continued*

Beneath the surface, the May data again highlight a clear divergence across sectors. Manufacturing strengthened even further, with the PMI rising to 55.3 – its highest level in over four years – reflecting firm output growth and continued inventory building as businesses seek to guard against supply disruptions and higher input costs. By contrast, services activity softened slightly to 50.9 – on course for its weakest quarter since late 2023 – with demand remaining subdued and new business growth modest at best, as higher prices and persistent uncertainty weigh on household and business spending decisions. As a result, near-term growth remains disproportionately supported by goods activity, much of which appears tied to precautionary stock building rather than end-demand strength, seemingly leaving the broader expansion more vulnerable to a slowdown in services.

At the same time, the May survey points to a renewed and more concerning pickup in price pressures. Input costs accelerated sharply – rising at the fastest pace since late 2022 – while businesses increasingly passed those costs through to customers, pushing selling price inflation to its highest level in nearly three years. Much of the pressure was attributed to higher energy prices and supply chain disruptions tied to the Middle East conflict, alongside ongoing tariff-related cost pressures. Notably, these cost dynamics were also accompanied by softening labor demand, particularly in the services sector, with survey respondents indicating job cuts and more cautious hiring as businesses navigate margin pressure and a more uncertain outlook for demand.



Taken together, the PMI data reinforce the ‘complicated macro’ narrative emerging across recent economic releases. Growth remains intact but is losing momentum, while inflation pressures are re-intensifying beneath the surface. For businesses, the message is mixed. While activity continues to expand, rising input costs and softer demand – particularly in services – are likely to keep pressure on margins and reinforce a more cautious hiring and investment backdrop.

ECONOMIC TRENDS: HOUSING SECTOR

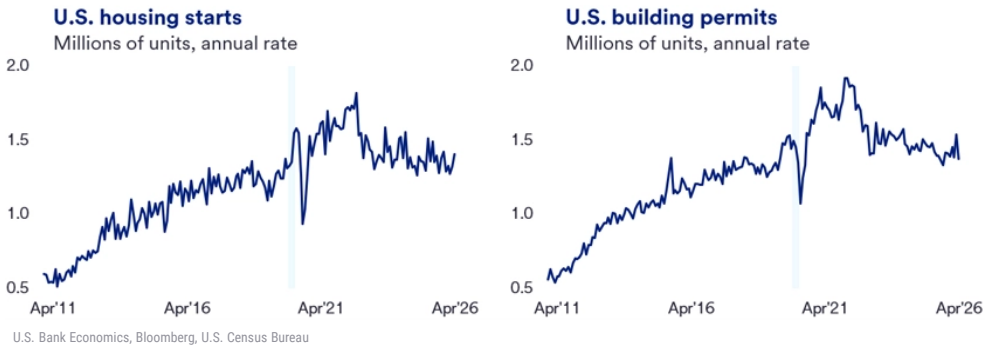
Housing: Activity sideways, supply signals mixed

April residential construction data point to a housing sector that continues to move mostly sideways, with activity remaining within its recent range despite some month-to-month volatility. Housing starts declined by -2.8% month-over-month (MoM) to a 1.47 million annualized pace (+4.6% YoY), reflecting a partial reversal of March’s sharp increase, while building permits rose 5.8% MoM (-0.2% YoY) – driven primarily by gains in the more volatile multifamily segment. Together, the data suggest that construction activity remains broadly stable but lacks clear upward momentum.

ECONOMIC TRENDS: HOUSING SECTOR

Housing: Activity sideways, supply signals mixed *continued*

Beneath the surface, the composition of activity reinforces that view. Single-family starts and permits both declined last month, signaling ongoing hesitancy among builders tied to affordability constraints and elevated borrowing costs, while multifamily construction has provided intermittent support. More broadly, the divergence between starts and permits – along with the continued softness in single-family authorizations – suggests that near-term pipeline activity remains constrained, limiting the scope for a sustained pickup in construction.



For businesses, the housing backdrop continues to reflect a rate-sensitive sector adjusting to a higher-cost environment. Elevated financing costs, along with renewed pressure on input prices tied to energy and tariffs, are weighing on both builder sentiment and project feasibility. While activity remains stable for now, the underlying signals point to a sector that is better characterized by stabilization than recovery, with residential investment likely to remain a limited contributor to growth in the near term.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Key inflation read tops back-loaded week

Following a holiday-shortened start, the data calendar shifts into higher gear toward the end of the week, with Thursday bringing a concentrated batch of releases that will offer important signals on inflation, consumer demand and overall economic momentum. April personal income and outlays will headline the slate, alongside the second estimate of Q1 GDP and April new home sales.

Thursday's Personal Income and Outlays report will be the main focus, offering a fresh read on both household income growth and consumer spending. We expect personal income to rise a solid 0.4% MoM, with spending advancing 0.5% MoM, suggesting households remain resilient despite ongoing price pressures. That said, the composition of spending will be key, as elevated prices may constrain discretionary purchasing power even as nominal outlays remain firm. On inflation, we look for the headline Personal Consumption Expenditures (PCE) deflator to increase 0.5% MoM in May, lifting the year-over-year rate to 3.9%. Core PCE – the Fed's preferred gauge – is expected to rise 0.3% on the month, pushing the annual rate to 3.3%, still well above the Fed's comfort zone. Taken together, the data look to suggest that while household spending remains solid in nominal terms, much of that strength continues to reflect higher prices rather than increased real consumption.

If realized, the report would reinforce the view that disinflation progress remains gradual and uneven, with recent firmness in energy and goods prices limiting broader improvement. In that context, the data should support the Fed's current wait-and-see stance, while keeping the focus squarely on upside inflation risks rather than near-term easing.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Key inflation read tops back-loaded week *continued*

Also on Thursday, the **Second Estimate of Q1 2026 GDP** is expected to show a modest upward revision to 2.2% from the advance estimate of 2.0% (consensus: 2.1%).

The anticipated revision reflects somewhat stronger consumer spending than initially reported, alongside a firmer read on business investment. Incoming March data pointed to resilience in areas such as healthcare and professional services consumption, while equipment spending appears to have held up better than previously assumed. These upward revisions are expected to more than offset modest drags from inventories and net exports. Overall, the update would suggest the economy entered 2026 with slightly firmer momentum than initially estimated.

Rounding out the day, **April New Home Sales** will provide a timely snapshot of housing demand amid still-challenging affordability conditions. We expect sales to ease to an annualized pace of 660,000, reflecting a modest pullback following recent volatility. While softer, this level would remain broadly consistent with the range observed over the past year. Even so, elevated mortgage rates and rising construction costs remain key headwinds, and ongoing reliance on builder incentives suggests underlying demand remains somewhat fragile.

Taken together, this week's releases are likely to reinforce a macro narrative of resilient demand alongside persistent inflation pressures. Consumer activity and overall growth appear to be holding up, with Q1 momentum potentially revised higher. However, inflation remains well above target, suggesting limited scope for any near-term shift in policy. For the Fed, the combination continues to argue for patience, with risks still tilted toward inflation rather than growth.

ECONOMIC DATA CALENDAR THIS WEEK

What we're watching this week, including release dates and projections from the U.S. Bank Economics Research Group.

U.S. economic calendar - May 25 through May 29						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
5/26/2026	8 a.m.	S&P/Case-Shiller home prices (MoM)	Mar	0.1	0.1	-0.1
		FHFA home prices (MoM)	Mar	0.1	0.1	0.0
	9 a.m.	Conf. Board Consumer Confidence	May	91.3	91.5	92.8
5/28/2026	7:30 a.m.	Personal income (MoM)	Apr	0.4	0.4	0.6
		Personal spending (MoM)	Apr	0.5	0.5	0.9
		PCE Deflator (MoM)	Apr	0.5	0.5	0.7
		PCE Deflator (YoY)	Apr	3.9	3.9	3.5
		Core PCE Deflator (MoM)	Apr	0.3	0.3	0.3
		Core PCE Deflator (YoY)	Apr	3.3	3.3	3.2
		Durable goods orders (MoM)	Apr P	3.0	3.0	0.8
		Durable goods ex Transportation (MoM)	Apr P	0.4	0.4	0.9
		Capital goods orders nondef ex. Aircraft	Apr P	0.4	0.4	3.4
		Initial Jobless Claims	23-May	209.0	212.5	209.0
		GDP 2nd update (QoQ %)	1Q S	2.2	2.1	2.0
		9 a.m.	New home sales (000)	Apr	660.0	662.5
5/29/2026	7:30 a.m.	Advance Goods Trade Balance	Apr	-88.0	-87.0	-87.4
		Retail Inventories (MoM)	Apr			0.6
		Wholesale Inventories (MoM)	Apr P			1.3
8:45 a.m.	Chicago PMI	May	51.2	51.2	49.2	

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 5/22/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

- May 26, 7:20 p.m.:** Kashkari (Minneapolis Fed/Voter)
- May 27, 3 a.m.:** Logan (Dallas Fed/Voter)
- May 27, 2:55 p.m.:** Cook (Board of Governors/Voter)
- May 27, 7 p.m.:** Jefferson (Board of Governors/Voter)
- May 27, 9:25 p.m.:** Goolsbee (Chicago Fed/Non-Voter)
- May 28, 7:55 a.m.:** Williams (New York Fed/Voter)
- May 28, 9:15 a.m.:** Musalem (St. Louis Fed/Non-Voter)
- May 28, 11 p.m.:** Daly (San Francisco Fed/Non-Voter)
- May 29, 5:50 a.m.:** Schmid (Kansas City Fed/Non-Voter)
- May 29, 8:10 a.m.:** Bowman (Board of Governors/Voter)
- May 29, 8:15 a.m.:** Paulson (Philadelphia Fed/Voter)

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